

## Community resources

[Follow us on Twitter](#) [Check our Reddit](#) [Twitter this](#) [Digg this page](#) [Contact us on IRC](#)

*courage is contagious*

## Viewing cable 09KABUL3574, Chinese Firm Again Frontrunner for Major Afghan Mining

If you are new to these pages, please read an introduction on the [structure of a cable](#) as well as how to [discuss them](#) with others. See also the [FAQs](#)

### Understanding cables

Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

### Discussing cables

If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#09KABUL3574**.

Reference ID	Created	Released	Classification	Origin
<a href="#">09KABUL3574</a>	<a href="#">2009-11-07 12:54</a>	<a href="#">2011-08-30 01:44</a>	<a href="#">CONFIDENTIAL</a>	<a href="#">Embassy Kabul</a>

Appears in these articles:

<http://www.aftenposten.no/spesial/wikileaksdokumenter/article3992445.ece>

VZCZCXRO2329  
RR RUEHDBU RUEHPW RUEHSL  
DE RUEHBUL #3574/01 3111254  
ZNY CCCCC ZZH  
R 071254Z NOV 09 ZDK  
FM AMEMBASSY KABUL  
TO RUEHC/SECSTATE WASHDC 2911  
INFO RUCNAFG/AFGHANISTAN COLLECTIVE  
RUEHRH/AMEMBASSY RIYADH 4315

C O N F I D E N T I A L SECTION 01 OF 02 KABUL 003574

C O R R E C T E D C O P Y (CHANGES IN PARA 11)

SIPDIS

E.O. 12958: DECL: 11/7/2019

TAGS: [EMIN](#) [EINV](#) [ENRG](#) [PREL](#) [SENV](#) [AF](#)

SUBJECT: Chinese Firm Again Frontrunner for Major Afghan Mining Contract

REF: KABUL 3101

Classified By: Acting CDDEA Robert F. Cekuta for reasons 1.4 (b) and (d)

1. (C) Summary: China Metallurgical Group (MCC), the Chinese state-owned firm operating the Aynak copper mine, is a leading bidder for the multi-billion dollar Hajigak iron ore mine in Bamyan. If MCC wins the contract, it will have the two largest foreign investments

in Afghanistan as well as be running mines that could be among the world's largest. The MCC track record with Aynak, however, does not suggest the Chinese company will create jobs as quickly as GIROA authorities would like. Moreover, the Ministry of Mines' focus on Aynak -- and Hajigak -- comes at the expense of attention to smaller mining operations that could yield more immediate gains in terms of revenues, jobs, and increased Afghan entrepreneurial activity. The Hajigak case also underlines again the need for Afghanistan to reform its mining law, something the IMF and others have long recommended, including as one of the conditions for HIPC (highly indebted poor country) debt relief. End summary.

Hajigak: A World-Class Iron Deposit

12. (SBU) According to U.S. Geological Survey and Soviet-era data, the Hajigak iron ore deposit in central Afghanistan's Bamyan province is the largest in Asia, with an estimated 1.8 billion tons of ore containing 62 percent iron. Ministry of Mines officials estimate Hajigak could produce for decades and potentially supply GIROA with USD 1 billion in royalties and tax receipts annually, depending on the terms of the contract. Ministry estimates suggest the mine could directly employ over two thousand employees once iron mining begins and indirectly provide jobs to another ten thousand in steel production, coal mining, and support industries.

13. (SBU) The mine's development is likely to require USD 10 billion in capital over the next decade, but that figure really depends on the scope of the final bid, which has yet to be determined. The Ministry of Mines has linked the Hajigak iron contract to development of a nearby deposit of coking coal for use in domestic steel production. The public tender envisions ambitious multiple operations: a coking coal mine, iron mine, thermal coal mine, power generation facility, ore processing, and steel manufacturing. Bids Due in December

14. (SBU) Seven companies are shortlisted for the Hajigak contract: MCC (China), Tuwairqi Steel Mills (Pakistan/Saudi Arabia), and five Indian firms: Essar Minerals, Ispat Industries, JSW Steel, Rashtriya Ispat Nigam, and Sesa Goa. Rashtriya Ispat Nigam and MCC are both state-owned companies. Final bids are due by late December. The Ministry of Mines will have six weeks to analyze the bids, announce a preferred and reserve bidder, and then begin contract negotiations. (Note: The Ministry took five months to negotiate the Aynak copper contract with MCC. End note.)

Questions on Transparency and Process

15. (C) Mining Minister Adel has personally fast-tracked the Hajigak tender. World Bank officials report the Bank had preferred to see how the Aynak project progressed before helping the Afghans move ahead with their country's second major mining tender. While the locally-based NGO Integrity Watch International publicly said it is satisfied with the transparency of the Aynak tender process, its director told EconOff he wished the Ministry of Mines had waited to learn more from the Aynak process before proceeding with Hajigak.

16. (C) Ministry of Mines and World Bank officials are also concerned that if MCC wins the Hajigak tender, Afghanistan's two largest foreign investments will be awarded to the same state-owned Chinese firm. Minister Adel acknowledged this concern, but said the tender process does not allow for any consideration of issues beyond the bids themselves.

17. (C) No U.S., Canadian, or Australian companies submitted expressions of interest on Hajigak, according to [TEXT REMOVED BY AFTENPOSTEN], who suggested the tender's requirement for an associated steel plant had deterred potential Western bidders.

[TEXT REMOVED BY AFTENPOSTEN] added the Indian and Pakistani/Saudi company bids do not appear competitive and that it might be best if none of the bids are accepted and the Ministry of Mines is forced to re-advertise. If the tender were advertised without the steel manufacturing component it might attract the attention of big western mining companies, [TEXT REMOVED BY AFTENPOSTEN] continued. While noting he had not seen the final bids, [TEXT REMOVED BY AFTENPOSTEN] said MCC seems likely to win the contract.

Ministry of Mines: Eyes on the (BIG) Prize

18. (C) Huge projects like Aynak and Hajigak have the potential to bring in billions in revenue, but may not necessarily provide significant near-term employment opportunities for Afghans. Aynak is eighteen months behind schedule and Afghan officials worry MCC will not create the numbers of jobs expected, either at the mine or in

building roads and other needed infrastructure (reftel). As a result, Provincial Reconstruction Team and Embassy officers have tried to focus the Ministry of Mines on smaller operations such as marble and gem mines. Private sector experts repeatedly report high-quality marble and Afghan gems hold great economic potential, including for Afghan entrepreneurs, but Ministry of Mines officials keep concentrating on big projects.

¶9. (C) Connected with this issue is the long-standing push, including by international donors, to revise the mining law. Mining law reform is one of the requirements for HIPC approval. Technical advisors at the Ministry note several flaws in the current mining law affecting small and medium-sized operations: (1) short contract terms (sometimes as short as two years) that fail to attract investors, (2) no set royalty scheme (necessitating bidding on each deposit, including individual marble quarries), (3) limited legal ways to mine gemstones, and (4) separate contracts needed to explore and exploit deposits (i.e., without a pre-negotiated joint contract, an exploration company does not have the right to develop any deposit it might discover.) A new draft mining law, not yet made public, is "more investor friendly", according to Ministry advisors, but still fails to address the issues listed above.

Comment

- - -

¶10. (C) Afghanistan's minerals are a potential source of wealth and income, with PRT officers reporting extensive local interest in small mining operations, particularly in the North and East. However, the Ministry of Mines is ignoring the potential of smaller operations and is focusing instead on large operations, with their attendant royalties, taxes, and up-front payments. (For example, MCC's Aynak contract included a USD 808 million signing bonus.) Four new USAID-funded technical advisors (in international investment law, natural resource economics, petroleum, and mining) will provide the Ministry with greater expertise and capacity, thus helping the Ministry develop a broader economic development focus. Many experts have also said a more reform-minded Minister would also help Afghanistan realize the full potential of its mining industry.

¶11. (C) As for MCC and its bid for Hajigak, the company's employment track record with Aynak (reftel) suggests it might better if another company were to win the contract. End comment.

EIKENBERRY